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RUEHGP/AMEMBASSY SINGAPORE 6899
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RUEHWL/AMEMBASSY WELLINGTON 1778
RUEHGZ/AMCONSUL GUANGZHOU 0257
RUEHHM/AMCONSUL HO CHI MINH CITY 0093
RUEHHK/AMCONSUL HONG KONG 8038
RUEHGH/AMCONSUL SHANGHAI 1082
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C O N F I D E N T I A L SECTION 01 OF 03 TAIPEI 001120

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E.O. 12958: DECL: 05/16/2010
TAGS: ETRD ECON PREL ECIN TW
SUBJECT: FORMER TAIWAN PREMIER ON POLITICS & ECONOMY

REF: 06 TAIPEI 1340

Classified By: AIT DIRECTOR STEPHEN M. YOUNG FOR REASONS 1.5 (b), (c)

¶1. (C) Summary: On May 16 AIT Director Young called on former Premier Vincent Siew, a longtime KMT figure, who had just returned from a trip to Vietnam. Siew opined that DPP presidential candidate Frank Hsieh currently has the edge on KMT candidate Ma Ying-jeou and that a Hsieh/Su Tseng-chang ticket would be very strong. He also visited the Boao Forum in Hainan in April and met with Wu Bangguo and Chen Yunlin. Siew told us China's leadership believes it has now outlasted Chen Shui-bian and looks forward to working more cooperatively with whoever wins the Taiwan Presidency in ¶2008. He lamented DPP economic policies as letting Taiwan's comparative advantage slip away and lauded Vietnam as an outstanding growth opportunity for Taiwan firms. End Summary.

¶2. (SBU) AIT Director Young met former Premier Vincent Siew May 16 to discuss Cross-Straight issues and domestic Taiwan politics. Siew remains active in Taiwan affairs though he is no longer holding political office and describes himself as not influential in KMT affairs; he is Chairman of both the Chunghwa Institute for Economic Research (CIER) and the Cross-Straits Common Market Foundation (CSCMF). He travels frequently to China and returned in late April from a short trip to Hainan to attend the April 20-22 Boao Forum for Asia and met with Wu Bangguo and Chen Yunlin on the margins of the conference. After leaving Hainan, he led a group of Small and Medium Taiwan enterprises to Japan. On May 15 he returned from leading an Executive MBA class on a separate trip to Ho Chi Minh City in Vietnam.

Political Trends

¶3. (C) Siew offered his view, based on his conversations around Taiwan, that DPP presidential candidate Frank Hsieh (Chang-ting) will beat KMT's Ma Ying-jeou in 2008. He said Ma is steadily losing ground in polls and has not displayed

strong leadership traits. Siew seemed most supportive of DPP defeated candidate Su Tseng-chang, citing him as "absolutely not corrupt" and a good personality that people trust. On Hsieh, Siew said he is better educated than Su and knows how to deal with people. Siew seemed to be suggesting that the DPP should run a Hsieh/Su ticket. During his time at the Boao Forum, Siew said the consensus was that Ma has only a 50/50 chance of winning the presidency.

¶4. (C) Siew said he had a 30-minute private meeting with Wu Bangguo (Chairman, Standing Committee of the PRC National People's Congress) and Chen Yunlin (Director, Taiwan Affairs Office, State Council) on the margins of the Boao Forum. Siew told Wu and Chen that Taiwan will be in a campaign mode from now until the presidential election in 2008. Siew emphasized that the majority, some 65-75%, of people on the island view themselves as Taiwanese. According to Siew, Chen responded that China understands this fact and will not overreact to campaign events in Taiwan and offend the majority. Siew related that he believes China's leaders are in no hurry to push the Taiwan issue right now, believing they have successfully outlasted Chen Shui-bian and can work more productively with either Frank Hsieh or the KMT's Ma.

¶5. (C) The DIR asked for Siew's views on Honorary KMT Chairman Lien Chan's recent visit to China (and attendance at the Chinese Communist Party (CCP-KMT Economic Forum). Siew said the CCP believes the KMT has a chance to regain power in 2008 and so wants to maintain good ties with the KMT and its presidential candidate. Realizing that Ma will not travel to China before the election, the CCP seeks to use Lien's visit to send positive messages.

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An Economic Policy Would Be Good

¶6. (C) Siew lamented the lack of a solid economic policy by the Chen Administration. He sees Taiwan's economic strengths as slipping away while the Chen Administration dithers over what policy to follow on cross-Strait economic ties. He further complained that Taiwan officials are very closed-minded to new ideas. His prescription is for Taiwan to unilaterally declare a Free Trade Area. Rather than cajoling the U.S., Japan and others to enter into FTA talks, he suggests Taiwan should unilaterally declare it is a free-trade area. He suggested this type of move is similar to what both Singapore and Hong Kong have done. When asked about the potential impact on sensitive areas of Taiwan's economy, Siew added that liberalization in certain areas like trade in rice could be phased in over time. He also said the FTA would be contingent only on other countries offering equivalent treatment. He said he has proposed this to Ma Ying-jeou, who agreed to discuss it with his top advisors. He said this approach is the only way for Taiwan to lure back investment dollars now flowing out of Taiwan. (Note: Siew has been championing the idea of a Common Market between Taiwan and China and firmly believes Taiwan's future economic prosperity is inextricably linked to China. His suggestion for a unilateral FTA appears to be an evolution of his Common Market proposal and to still be a work in progress. In a public speech on the same day he met the Director, Siew formally proposed the unilateral FTA. It was covered in the local papers published on May 18, 2007. End Note.)

Don't Expect Progress Cross Straits

¶7. (C) Siew was not optimistic about the newly installed Premier, Chang Chun-hsiung, being able to deliver any progress on Cross-Straits economic relations. He thought that with President Chen now saying he wants to make progress on flights, tourists and the Olympic torch that Beijing will react by making progress harder.

¶18. (SBU) Siew was very impressed with the growth and progress in southern Vietnam since his last visit in 2001. He said the place is "booming" and it looks like it has made 60-years' worth of progress in the last six years. He said 92 percent of Taiwan investors are making profits in Vietnam, in contrast to 50-60 percent of Taiwan investors in China. He described the business environment in Vietnam as "much better" than in China. The work force is capable and hardworking and much more loyal to their companies. (Note: AIT/T commonly hears that Taiwan firms in China see their work force turn over constantly as competitors hire away talent by "doubling" their salaries. End Note.)

¶19. (SBU) Siew pointed particularly to intellectual property protection as a strong point for Vietnam compared to China. He cited the case of a Taiwan zipper (YKK) manufacturer who has pulled up stakes in Shenzhen, China and moved to Vietnam because of rampant Chinese counterfeiting of his product. Further, he said there are no serious cases of illegal copying of Taiwan-made products in Vietnam. He also lauded Vietnam officials as open-minded and willing to listen to new proposals. He said once an official is convinced a project is in Vietnam's interests they are quick to implement the project. As an example, Siew said after Vietnam was in the WTO, it immediately began issuing licenses for Taiwan banks. While Siew did not contrast this directly with Taiwan officials, it was hard not to miss the connection when he

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later said Taiwan officials are close-minded.

(But Not Perfect

¶10. (SBU) Siew sees two barriers to further expansion of Taiwan-Vietnam ties: language and infrastructure. He said a Taiwan shoe company has 80,000 workers and runs its own interpretation training center to facilitate communications between Taiwan and Vietnamese staff. He didn't cite specifics about deficient infrastructure, but clearly thought this was an area Vietnam officials should be concentrating on. On balance, Siew was clearly impressed with Taiwan operations in Vietnam and confided that many Taiwan investors in China are quietly shifting a portion of their investments out of China and into Vietnam. (Note: Siew's comments confirm what we have heard from other businesses. Many Taiwan investors initially went to China seeking lower labor costs, as well as a larger labor force. With costs rising in China and various tax and other incentives being withdrawn, these same firms are now seeking lower-cost manufacturing platforms elsewhere. End Note.)

YOUNG